A **KETUA PENGARAH HASIL DALAM NEGERI**

v.

LAI KENG CHONG & ANOR

B COURT OF APPEAL, PUTRAJAYA
ABDUL MALIK ISHAK JCA
MOHAMED APANDI ALI JCA
BALIA YUSOF WAHI JCA
[CIVIL APPEAL NO: J-01-211-2010]
C 30 JANUARY 2012

REVENUE LAW: *Income tax - Assessment - Gross profit ratio (GPR) - Special Commissioners of Income Tax (SC) imposed GPR of 22% in raising additional assessment - Whether just and appropriate pursuant to* D *s. 91(1) Income Tax Act 1967 - Doctrine of estoppel - Whether taxpayers could raise defence of estoppels against Director General of Inland Revenue*

The appellant, the Director-General of Inland Revenue ('DG'), conducted a field audit on the taxpayers (respondents) who E operated a business under the name and style of Hup Soon Trading in respect of the years of assessment 1998, 1999, 2000 and 2001. According to the DG, the respondents had under declared their income for the relevant years of income tax. The Special Commissioners of Income Tax ("SC") held that the gross F profit ratio (GPR) of 22% used by the appellant in raising the additional assessment for years of assessment of the relevant years was correct in law. The respondents appealed against the deciding order. The High Court allowed the appeal of the respondents and dismissed the SC's decision. The appellant DG thus appealed.

G **Held (allowing the appeal with costs; setting aside decision of High Court)**
Per Abdul Malik Ishak JCA delivering the judgment of the court:

H **(1)** The basis of GPR 22% imposed onto the respondents and affirmed by the SC was just and appropriate pursuant to s. 91(1) of the Income Tax Act 1967 and based on the evidence adduced. Whereas the decision of the High Court was not supported by any evidence. The basis of GPR 8% I was only the opinion of the High Court Judge and it was without any basis. (para 15)

(2) The doctrine of estoppel could not apply to the appellant DG and no taxpayer could raise the defence of estoppel against the appellant DG (*Government of Malaysia v. Sarawak Properties Sdn Bhd; Teruntum Theatre Sdn Bhd v. Ketua Pengarah Hasil Dalam Negeri*). Thus, the decision of the SC was reinstated. (para 15)

Bahasa Malaysia *Translation Of Headnotes*

Perayu, Ketua Pengarah Hasil Dalam Negeri ('KP'), telah menjalankan audit luar ke atas pembayar-pembayar cukai (responden-responden) yang mengendalikan perniagaan di bawah nama dan gaya Hup Soon Trading berkenaan dengan tahun-tahun taksiran 1998, 1999, 2000 dan 2001. Menurut KP, responden-responden telah tidak mengisytiharkan dengan tepat pendapatan mereka bagi tahun-tahun relevan cukai pendapatan. Pesuruhjaya Khas Cukai Pendapatan ("PK") memutuskan bahawa 22% keuntungan nisbah kasar (KNK) yang digunakan oleh perayu dalam menaikkan taksiran tambahan bagi tahun-tahun taksiran tahun-tahun relevan adalah betul dari segi undang-undang. Responden-responden merayu terhadap perintah keputusan itu. Mahkamah Tinggi membenarkan rayuan responden-responden dan menolak keputusan PK. KP perayu dengan itu merayu.

Diputuskan (membenarkan rayuan dengan kos; mengenepikan keputusan Mahkamah Tinggi)
Oleh Abdul Malik Ishak HMR menyampaikan penghakiman mahkamah:

(1) Asas 22% KNK yang dikenakan ke atas responden-responden dan disahkan oleh PK adalah adil dan sesuai menurut s. 91(1) Akta Cukai Pendapatan 1967 dan berdasarkan keterangan yang dikemukakan. Manakala keputusan Mahkamah Tinggi tidak disokong oleh mana-mana keterangan. Asas 8% KNK hanya pendapat hakim Mahkamah Tinggi dan ia tanpa asas.

(2) Doktrin estoppel tidak boleh digunapakai ke atas KP perayu dan tiada pembayar cukai boleh membangkitkan pembelaan estoppel terhadap KP perayu (*Government of Malaysia v. Sarawak Properties Sdn Bhd; Teruntum Theatre Sdn Bhd v. Ketua Pengarah Hasil Dalam Negeri*). Oleh itu, keputusan PK dihidupkan semula.

A **Case(s) referred to:**

Government of Malaysia v. Sarawak Properties Sdn Bhd [1994] 1 CLJ 514 HC ***(refd)***

Teruntum Theatre Sdn Bhd v. Ketua Pengarah Hasil Dalam Negeri [2006] 3 CLJ 123 CA ***(refd)***

B **Legislation referred to:**

Income Tax Act 1967, ss. 82(1)(a), 91(1) Schedule 5, para 4

For the revenue/appellant - Abu Tariq Jamaluddin (Norhisham Ahmad with him); FCs

C *For the taxpayers/respondents - Sukhdev Singh Randhawa & Co (Muhamed Fariz Mohd Ali with him); M/s Azlan Shah Sukhdev*

[Appeal from High Court, Johor Bahru; Civil Appeal No: MT(5)-14-1-2008]

Reported by Suhainah Wahiduddin

D

JUDGMENT

Abdul Malik Ishak JCA:

E **[1]** This is the judgment of this court. The facts have been sufficiently set out by the learned High Court Judge, the Special Commissioners of Income Tax ("SC") and in the written submissions of the parties. We will not dwell on the facts at length.

F

[2] Suffice for us to state that the taxpayers (respondents) operate a business under the name and style of Hup Soon Trading and their principal activity is the business of trading in all forms of scrap ferrous metals such as wire, battery, drums, irons, G steel aluminium, brass copper, plastics and crane metal. It is a flourishing business.

[3] The taxpayers (respondents) had submitted their return forms for the relevant years of assessment and declared that the H gross profit ratio ("GPR") for the relevant years of assessment were 28.33%, 26.84%, 16.79% and 15.81% respectively.

[4] On 31 March 2003, the Director-General of Inland Revenue ("the DG (appellant)") conducted a field audit on Hup Soon Trading in respect of the years of assessment 1998, 1999, 2000 I (Current Year) and 2001. And the DG (appellant) found that:

(a) the taxpayers (respondents) had not recorded completely all their business transactions;

(b) the taxpayers (respondents) failed to keep and retain their records of trading for the relevant years of assessment in good order;

(c) the taxpayers (respondents) did not declare their income of the crane rental for the relevant years of assessment; and

(d) the monies deposited into the taxpayers' (respondents') bank account were higher than the amount declared.

[5] According to the DG (appellant), the taxpayers (respondents) had under declared their income for the relevant years of income tax for the following years:

(a) Year of assessment 1998 – RM16,549,443.27

(b) Year of assessment 1999 – RM15,103,940.98

(c) Year of assessment 2000 (Sistem Taksiran Tahun Semasa ("STTS") or Current Year Tax Assessment) – RM21,270,204.19

(d) Year of assessment 2001 – RM23,213,112.01

[6] The field audit conducted by the DG (appellant) also revealed that invoices and delivery orders were not available for all the relevant periods as they were destroyed by pests and/or misplaced save for the year of assessment 2001.

[7] In our judgment, by virtue of s. 82(1)(a) of the Income Tax Act 1967, it is the statutory duty of the taxpayers (respondents) to keep all their records in order particularly receipts, payment vouchers, orders and a host of other related documents pertaining to their business enterprise for a period of seven (7) years for tax purposes and this statutory duty cannot be waived.

[8] The field audit that was done on 31 March 2003 showed that the taxpayers (respondents) failed to keep their records going back to 1996, which should have been done, bearing in mind the seven (7) years embargo.

[9] Now, this appeal before us is in regard to the decision of the High Court delivered on 5 March 2010 which allowed the appeal by the taxpayers (respondents) against the deciding order of the SC dated 29 May 2007.

[10] The deciding order was made solely with respect to the following issue framed for determination of the SC:

> Whether the 22% GPR used by the Revenue in raising the additional assessment for years of assessment 1998, 1999, 2000 (STTS) and 2001 on 9.1.2004 were incorrect and excessive?

[11] The SC held that the GPR of 22% used by the DG (appellant) was correct in law. The taxpayers (respondents) filed an appeal against the deciding order and required the SC to state a case for the opinion of the High Court pursuant to para. 34 of Schedule 5 of the Income Tax Act 1967. After hearing the parties, the High Court allowed the appeal of the taxpayers (respondents) and dismissed the decision of the SC and held that the GPR of 22% used by the DG (appellant) was incorrect and excessive. The High Court applied the GPR of 8% to the relevant years of assessment under consideration.

[12] The High Court also held, *inter alia*, that:

(a) the DG (appellant) after having imposed the additional tax liability after the field audit that was carried out, cannot now revise their computation using an average GPR of 22% based on the first return forms and issue the notices of additional assessments to the taxpayers (respondents);

(b) it is clearly capricious on the part of the DG (appellant) as it is using figures which the DG (appellant) had itself acknowledged to be wrong to derive the GPR; and

(c) therefore, the DG (appellant) cannot be said to have issued the notices of additional assessments according to the "best judgment" of the DG (appellant) within the meaning of s. 91(1) of the Income Tax Act 1967.

[13] We have perused through the evidence with a fine toothcomb, and it is our judgment that:

(a) The SC took into consideration the evidence of Mr Lai Keng Chong, the first taxpayer (first respondent), who testified that the percentage profit of his business was between 3% to 5% but the SC declined to rely solely on his evidence because the account was not properly kept.

(b) The SC also considered the evidence of the accountant who had submitted the accounts of the taxpayers (respondents) for the relevant years of assessment to the DG (appellant). But the accountant admitted that the accounts were not verified. And after the field audit, the accountant submitted a revised account for the year 2001 and based on this account the accountant testified that the GPR for that year was 7.78%. This revised account was prepared by the accountant based on the documents submitted by the taxpayers (respondents) but the accountant said that he did not verify the documents. The SC refused to accept the revised account in order to show the correct GPR of the taxpayers' (respondents') business because during the field audit it was found that the taxpayers (respondents) had never had a complete record of their business for the relevant years under assessment. According to the SC, the revised account was in a state of mistrust as it was derived from a cross-reference with a third party, namely, Taiko Metal Sdn Bhd.

(c) By way of a conclusion, the SC had this to say:

> Therefore the best evidence for us to rely is the first return submitted by the appellant (now respondent) when it was first submitted which show the GPR of between 15% to 26.84%. We therefore accepted that the GPR of 22% as estimated by the taxpayers to be a fair estimate.

[14] In sharp contrast, the High Court held as follows:

> The deciding order dated 29.5.2007 as well as the notices of assessment for years of assessment 1998 to 2001 for the appellants (now respondents) are set aside and pursuant to paragraph 39(c) Schedule 5 of Income Tax Act 1967, I hereby order that fresh notices for both appellants (now respondents) for the relevant years be issued on the basis of GPR of 8% which in my opinion is just and appropriate.

[15] With respect, we say that the decision of the High Court is not supported by any evidence. The basis of GPR of 8% is only the opinion of the learned judge of the High Court and it is without any basis. It is simply plucked from the air. Whereas the basis of GPR of 22% imposed onto the taxpayers (respondents) and affirmed by the SC is just and appropriate pursuant to s. 91(1) of the Income Tax Act 1967 and based on the evidence. It must be borne in mind that the doctrine of estoppel cannot apply to the DG (appellant) and no taxpayer can raise the defence of estoppel against the DG (appellant) (*Government of Malaysia v. Sarawak Properties Sdn Bhd* [1994] 1 CLJ 514; and *Teruntum Theatre Sdn Bhd v. Ketua Pengarah Hasil Dalam Negeri* [2006] 3 CLJ 123, CA).

[16] For all these reasons, we unanimously allow the appeal of the DG (appellant) with costs of RM15,000. We set aside the decision of the High Court and reinstate the decision of the SC. Deposit, if any, to be refunded to the DG (appellant).